

Public Employee Retirement System

Analyst: Castro

Historical Summary

OPERATING BUDGET	FY 2005 Total App	FY 2005 Actual	FY 2006 Approp	FY 2007 Request	FY 2007 Gov Rec
BY PROGRAM					
Administration	8,362,100	5,695,700	5,683,500	5,676,200	5,625,500
Portfolio Investment	649,700	564,200	664,100	749,100	742,400
Total:	9,011,800	6,259,900	6,347,600	6,425,300	6,367,900
BY FUND CATEGORY					
Dedicated	9,011,800	6,259,900	6,347,600	6,425,300	6,367,900
Percent Change:		(30.5%)	1.4%	1.2%	0.3%
BY OBJECT OF EXPENDITURE					
Personnel Costs	3,365,900	3,231,000	3,529,300	3,638,900	3,473,700
Operating Expenditures	5,456,700	2,898,400	2,707,600	2,674,500	2,784,300
Capital Outlay	189,200	130,500	110,700	111,900	109,900
Total:	9,011,800	6,259,900	6,347,600	6,425,300	6,367,900
Full-Time Positions (FTP)	63.00	63.00	63.00	65.00	63.00

Division Description

The RETIREMENT ADMINISTRATION Program administers a Defined Benefit (DB) retirement plan that is mandatory for all eligible state and school district employees, and for employees of political subdivisions which have elected to participate. The plan also provides separation, disability, death and survivor benefits. The mission of the Public Employee Retirement System of Idaho (PERSI) is to provide members and their beneficiaries with reliable, secure, long-term retirement, survivor, and disability benefits as specified by law, and to assist members in planning a secure retirement by providing high quality, friendly service, retirement education and information. The system also administers the Sick Leave Reserve Fund for state and school district retirees, from which monthly medical insurance premiums are paid, as well as the former Firemen's Retirement Fund and the Idaho Falls and Boise City Police Retirement Funds.

As part of the Gain Sharing program adopted by the 2000 legislature, PERSI established the PERSI Choice Plan, a Defined Contribution (DC) plan for the 62,000 active members of PERSI. This plan, in addition to and separate from the DB plan, provides a 401(k) plan option to all members who are eligible. In years in which investment earnings and total DB plan assets sufficiently exceed liabilities plus one standard deviation reserve, the PERSI board may declare a portion of the excess earnings as gain sharing. When gain sharing is authorized, active members receive their allocation in the form of a transfer into their DC account. Retirees receive a 13th check. Employers receive a credit against future contributions.

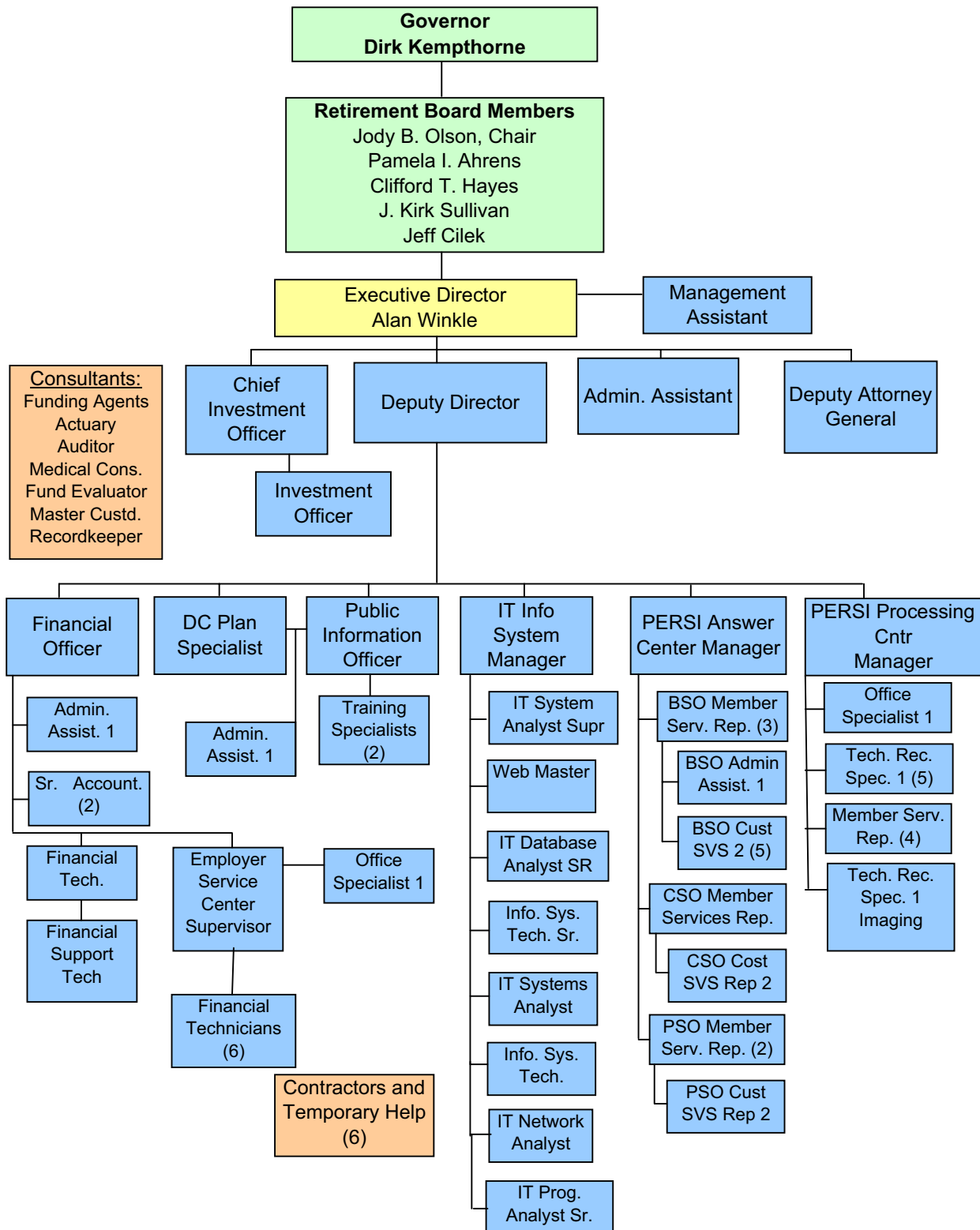
The PORTFOLIO INVESTMENT Program is responsible for the management of PERSI assets to ensure secure long-term returns on investments while minimizing investment costs. Beginning in FY 1996, the administrative costs of portfolio investment came under a fixed appropriation. The remaining investment costs continue to operate under a perpetual appropriation as provided in Idaho Code §59-1311.

[Statutory Authority: Idaho Code §59-1301 et seq.]

Public Employee Retirement System

Agency Profile

Analyst: Castro



Public Employee Retirement System

Agency Profile

Analyst: Castro

Source of Funds

**FY 2006
Original***

PERSI Administrative (0550-01): Weekly, a portion of the retirement system's annual appropriation is transferred to the Administrative Fund. All moneys transferred to the Administrative Fund are available to the Board for the payment of administrative expenses only to the extent so appropriated by the Legislature.

\$5,683,500

PERSI SPECIAL (0550-02): Public employees and employers make contributions to PERSI. In order to maximize the return on investment of these contributions, only a minimum amount of money is kept on deposit at the State Treasurer's Office. Money is wired in from PERSI's master custodian bank only when funds are needed to pay administrative expenses, benefits, or other authorized expenses.

\$664,100

*\$112,700 is included in the PERSI Adm. fund for the 27th payroll. \$15,500 is included in the PERSI Special fund for the 27th payroll.

\$6,347,600

Selected Measures	FY 2003 Act.	FY 2004 Act.	FY 2005 Act.
-------------------	--------------	--------------	--------------

ADMINISTRATION

1. Benefits paid (retirements, separations, disability)	325,455,000	357,302,000	389,992,000
2. Administrative expenses (keep below .15% of total asset market value)	0.10%	0.09%	0.08%

PORTFOLIO INVESTMENT

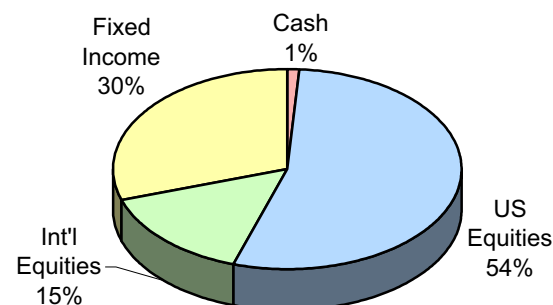
1. Annual investment income, net of fees	221,245,600	1,181,256,600	819,475,100
2. Number of investment managers at year-end	35	40	46
3. Number of investment managers hired/fired	0/1	8/3	6/0

Summary of Assets (All Plans)	FY 2003 Act.	FY 2004 Act.	FY 2005 Act.
Beginning assets	6,473.6	6,742.9	7,953.0
Plus contributions	380.0	393.1	439.6
Plus net investment income	221.4	1,181.3	819.6
Less benefits paid & other expenses	(332.1)	(364.3)	(397.1)
<i>Ending net assets (millions)</i>	<i>6,742.9</i>	<i>7,953.0</i>	<i>8,815.1</i>

Contribution Rates	FY 2007	FY 2008	FY 2009
Employer Rate (General Members)	10.39%	11.00%	11.61%
Employee Rate (General Members)	6.23%	6.60%	6.97%
Employer Rate (Fire/Police)	10.73%	11.34%	11.95%
Employee Rate (Fire/Police)	7.65%	8.09%	8.53%

FY 2003 restated to include information on all plans including sick leave.

This target asset allocation (whereby PERSI will consistently have about 70% of its assets in equity instruments) is the board's only way to achieve the desired 5% real return (i.e. inflation plus 5%) on investments.

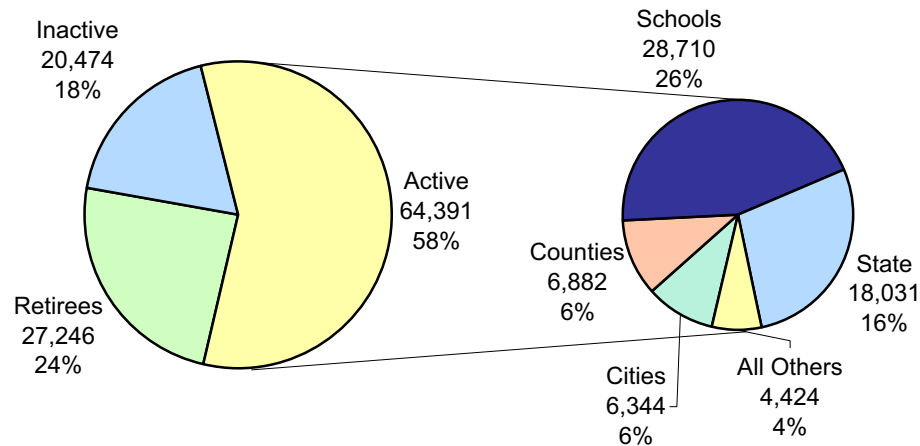


Public Employee Retirement System Agency Profile

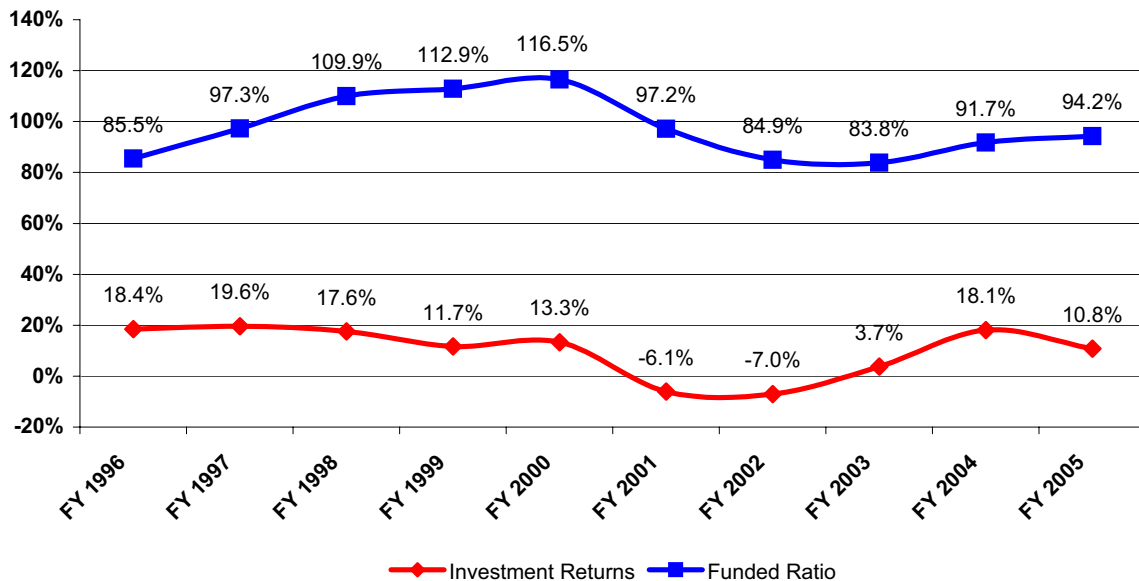
Analyst: Castro

PERSI Membership

684 employer units belong to PERSI, for a total system membership of 112,111



PERSI - Funded Ratios and Investment Returns



The PERSI Base Plan experienced a 10.8% gross return on investments in FY 2005, which equals \$770.0 million in net investment gain. As of July 1, 2005, the PERSI fund was valued at over \$8.2 billion, up from \$7.4 billion the prior year. The amortization period of PERSI's unfunded actuarial liability at 6.2 years is less than the 25-year period required by law. In November 2002, the PERSI board approved a total contribution rate increase including employee and employer rates of 3% (phased-in over three years beginning in FY05). After the first increase, the board has postponed the FY06 and 07 increases for 2 years. The second of three is now scheduled to begin FY08. At the end of the phase in, contribution rates will be at the same level they were prior to November of 1997 when rates were originally reduced 3%.

Public Employee Retirement System

Analyst: Castro

Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2006 Original Appropriation	63.00	0	6,347,600	63.00	0	6,347,600
Reappropriations	0.00	0	2,200,000	0.00	0	2,200,000
HB 395 One-time 1% Salary Increase	0.00	0	28,800	0.00	0	28,800
Omnibus CEC Supplemental	0.00	0	0	0.00	0	34,700
FY 2006 Total Appropriation	63.00	0	8,576,400	63.00	0	8,611,100
Removal of One-Time Expenditures	0.00	0	(2,493,400)	0.00	0	(2,493,400)
FY 2007 Base	63.00	0	6,083,000	63.00	0	6,117,700
Benefit Costs	0.00	0	47,500	0.00	0	(68,000)
Inflationary Adjustments	0.00	0	48,200	0.00	0	48,200
Replacement Items	0.00	0	126,900	0.00	0	124,900
Statewide Cost Allocation	0.00	0	4,700	0.00	0	4,700
Change in Employee Compensation	0.00	0	30,000	0.00	0	55,400
FY 2007 Program Maintenance	63.00	0	6,340,300	63.00	0	6,282,900
1. Convert IT from Contract Emp. to Staff	2.00	0	0	0.00	0	0
2. Portfolio Management Expense Increase	0.00	0	85,000	0.00	0	85,000
FY 2007 Total	65.00	0	6,425,300	63.00	0	6,367,900
Change from Original Appropriation	2.00	0	77,700	0.00	0	20,300
% Change from Original Appropriation			1.2%			0.3%

Public Employee Retirement System

Analyst: Castro

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2006 Original Appropriation	63.00	0	6,347,600	0	6,347,600

Reappropriations

Reappropriation of funds dedicated to the Business Re-engineering Project. The break out of reappropriation spending authority is \$2,181,300 in operating expense and \$18,700 in capital outlay.

Agency Request	0.00	0	2,200,000	0	2,200,000
Governor's Recommendation	0.00	0	2,200,000	0	2,200,000

HB 395 One-time 1% Salary Increase

Reflects a one-time 1% Change in Employee Compensation (CEC) increase.

Agency Request	0.00	0	28,800	0	28,800
Governor's Recommendation	0.00	0	28,800	0	28,800

Omnibus CEC Supplemental

Agency Request	0.00	0	0	0	0
----------------	------	---	---	---	---

The Governor's FY 2007 recommendation is a 3% ongoing increase in employee compensation (CEC), based on merit, to commence in FY 2006 with the January 29 pay period. This will allow agencies to fund employee compensation increases for ten pay periods prior to the end of the current fiscal year. Funding for the remaining 16 pay periods is provided in the FY 2007 CEC.

Governor's Recommendation	0.00	0	34,700	0	34,700
---------------------------	------	---	--------	---	--------

FY 2006 Total Appropriation					
Agency Request	63.00	0	8,576,400	0	8,576,400
Governor's Recommendation	63.00	0	8,611,100	0	8,611,100

Removal of One-Time Expenditures

Removes \$28,800 provided for HB395; \$112,700 provided for the 27th pay period; \$2,200,000 in funding for the Business Re-engineering project; and \$151,900 in other one-time capital and operating items.

Agency Request	0.00	0	(2,493,400)	0	(2,493,400)
Governor's Recommendation	0.00	0	(2,493,400)	0	(2,493,400)

FY 2007 Base					
Agency Request	63.00	0	6,083,000	0	6,083,000
Governor's Recommendation	63.00	0	6,117,700	0	6,117,700

Benefit Costs

Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 6.1% or \$436 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees and by 5.7% from 10.73% to 11.34% of salary for police and firefighters. Other benefit changes include minor adjustments in unemployment insurance rates and workers compensation rates.

Agency Request	0.00	0	47,500	0	47,500
----------------	------	---	--------	---	--------

Removes the PERSI rate increase and changes benefit costs to reflect a 3.5% or \$250 per FTP increase in health insurance costs. However, the change in health insurance providers, from Blue Shield to Blue Cross, has created a one-time opportunity to use unexpended reserves from the previous contract. This decision unit provides for a health insurance premium reduction equal to two month's premiums for both the employer and employee. Finally, a life insurance holiday is included equal to seven month's premium for the employer's share only.

Governor's Recommendation	0.00	0	(68,000)	0	(68,000)
---------------------------	------	---	----------	---	----------

Public Employee Retirement System

Analyst: Castro

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
Inflationary Adjustments					
Includes a general inflationary increase of 1.9% in operating expenditures.					
Agency Request	0.00	0	48,200	0	48,200
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>48,200</i>	<i>0</i>	<i>48,200</i>

Replacement Items					
Administration replacement includes operating funds for software upgrades (\$15,000). Capital replacement includes: 4 servers (\$33,000); 40 PC's (\$50,000); 5 printers (\$7,400); and miscellaneous office equipment (\$4,500).					
Portfolio replacement includes: 4 PC's (\$8,000), a fax (\$1,500), and a printer (\$7,500).					
Agency Request	0.00	0	126,900	0	126,900
<i>The Governor recommends \$1,500 replacement cost per desktop computer,</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>124,900</i>	<i>0</i>	<i>124,900</i>

Statewide Cost Allocation					
The Statewide Cost Allocation Plan assesses state agencies for their actual use of Attorney General, State Controller and State Treasurer services and includes changes in property and casualty insurance premiums. This decision unit also includes changes in fees charged for legislative audits and changes in the cost of office space leased to state agencies by the Department of Administration.					
Agency Request	0.00	0	4,700	0	4,700
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>4,700</i>	<i>0</i>	<i>4,700</i>

Change in Employee Compensation					
Calculated cost of a 1% salary increase for permanent and group positions.					
Agency Request	0.00	0	30,000	0	30,000
<i>Provides funding for the remaining 16 pay periods to annualize the 3% ongoing change in employee compensation recommended in the omnibus CEC supplemental.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>55,400</i>	<i>0</i>	<i>55,400</i>

FY 2007 Program Maintenance					
Agency Request	63.00	0	6,340,300	0	6,340,300
<i>Governor's Recommendation</i>	<i>63.00</i>	<i>0</i>	<i>6,282,900</i>	<i>0</i>	<i>6,282,900</i>

1. Convert IT from Contract Emp. to Staff

This request is to shift existing spending authority from operating expenditures and into personnel costs to cover hiring two new full time IT employees. Currently PERSI is paying an hourly rate for contract IT employees. Hiring contract individuals was more cost effective when the hourly use was low; however, the increase in overall utilization of the contract IT personnel has made hiring full time staff the more cost effective solution. PERSI requests to shift operating funds previously used to pay for contract IT employees to its personnel budget in order to add two new employees to the IT staff.

The result will be a reduction in OE of (\$109,800) and an increase in PC of \$109,800. The net effect to the overall budget is zero.

Agency Request	2.00	0	0	0	0
<i>Not recommended by the Governor.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

Public Employee Retirement System

Analyst: Castro

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
-------------------------	-----	---------	-----------	---------	-------

2. Portfolio Management Expense Increase

It has been the policy of the PERSI Board to request the legislature to fund the portfolio budget at a higher level in order to address possible contingencies that could occur in managing the portfolio. Personnel and operating expenses have grown over the past 10 years. Salary increases for the Investment Officer to stay competitive, maintaining sufficient group position emergency funding, and increases in travel expenses to monitor the portfolio have reduced the contingency funding. The agency is requesting an increase to restore contingency funds for the flexibility needed in portfolio management.

The request is to increase spending authority by \$35,000 in personnel costs and \$50,000 in operating expense.

Agency Request	0.00	0	85,000	0	85,000
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>85,000</i>	<i>0</i>	<i>85,000</i>

FY 2007 Total

Agency Request	65.00	0	6,425,300	0	6,425,300
<i>Governor's Recommendation</i>	<i>63.00</i>	<i>0</i>	<i>6,367,900</i>	<i>0</i>	<i>6,367,900</i>

Agency Request

Change from Original App	2.00	0	77,700	0	77,700
% Change from Original App	3.2%		1.2%		1.2%

Governor's Recommendation

<i>Change from Original App</i>	<i>0.00</i>	<i>0</i>	<i>20,300</i>	<i>0</i>	<i>20,300</i>
<i>% Change from Original App</i>	<i>0.0%</i>		<i>0.3%</i>		<i>0.3%</i>